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Current Support Brief

PROSPECTS FOR NATIONALIZATION OF ALGERIAN OIL



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PROSPECTS FOR NATIONALIZATION OF ALGERIAN OIL

In spite of Algerian President Ben Bella's recent statements calling for widespread nationalization, the regime is not likely, at least for the next few years, to nationalize foreign oil and gas properties. Factors inhibiting nationalization include the government's probable awareness that the sale of nationalized oil abroad would be almost impossible, that the nationalization of French oil interests could likely mean the end of French financial aid, and that prospects for additional non-Bloc foreign investment probably would evaporate. Also, the USSR, while showing an interest in aiding the fledgling government, probably would be unable to market more than a token amount of Algerian oil. Although nationalization is unlikely, Algeria probably will seek to increase its share of oil revenues. Moreover, Ben Bella plans to broaden the government's role in the future development of Saharan oil and gas. Assistance for such plans poses a likely avenue of Soviet involvement in the Algerian oil industry. In 1962, Saharan oil and gas earned some \$40 million for Algeria -- \$50 million is expected for 1963. 1/ In view of the expanding output of Saharan oil, oil production and revenues by 1965 may be double the level of 1963. 2/

1. Background

Revenues obtained from the oil industry are of major importance to the government of Algeria. These revenues constitute, at this time, perhaps the only reliable domestic source of government receipts. When additional funds were required in the ordinary budget in 1963, about 40 percent of the oil receipts that had been assigned to the development budget were transferred to the ordinary budget, 3/ presumably because other domestic receipts were not available for this purpose. Furthermore, the major portion of domestic revenues in 1963 reportedly has been acquired from the oil industry. 4/ The planned budgets, however, both development and ordinary, provided for total revenues from the oil industry of only about \$50 million. If, in fact, oil revenues constitute most of domestic revenues, total receipts from other domestic sources must be less than \$50 million.

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2. Factors Impeding Nationalization

The possibility of nationalization poses a threat not only to the oil revenues but also to the large amounts of foreign aid now being obtained. It would follow logically that if Algeria were to confiscate the French-owned oil industry, a sharp reduction or even elimination of French financial assistance would follow. In 1963 an elimination of both French aid and oil revenues would have removed most of the revenues obtained except the small sums obtained from other domestic sources and the relatively small quantities of foreign aid obtained from other countries. Although the USSR has extended \$100 million in economic credits, it is considerably below the amount of aid being supplied by the French.

The French market for Algerian oil is of critical importance to Algeria. France purchased, at premium prices, * 65 percent of the approximately 410,000 barrels a day produced in 1962. 6/ Algerian nationalization almost certainly would result in denial of this market. In addition, international oil companies most likely would consider Algerian nationalization illegal and refuse to market Algerian production.

Nationalization also would call a halt to the expansion of Algeria's natural gas industry, which is based on a potential market in Western Europe. The gas liquefaction plant at Arzew, scheduled to begin operations in 1964, will have an initial capacity of about 50 billion cubic feet of natural gas annually. 7/ In 1962, Algeria produced only a modest amount of gas. 8/ If the ambitious plans for a trans-Mediterranean gas pipeline network from Algeria to Europe are realized, production of gas in 1968 might reach 350 billion cubic feet. 9/ The achievement of this project would be contingent on international cooperation including France and other Western European countries.

A rapid increase in production of oil and gas is a major goal of the Algerian government. 10/ Such an expansion, however, requires massive injections of capital from external sources. These sources would be seriously discouraged, however, by nationalization of foreign oil or gas

* The French market is rigidly controlled by the government, and the price paid for Saharan crude is well above the level of the world market. 5/

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properties. Furthermore, foreign funds for investment in other fields also would become increasingly difficult to acquire. Soviet financial support of a magnitude sufficient to offset the direct and indirect consequences of nationalization is not likely to be forthcoming.

Thus far the regime's conduct toward the foreign oil and gas corporations has been in accord with the Franco-Algerian agreements signed at Evian-les-Bains. These agreements provided that, except for certain rights which were transferred to the Algerian government, all Saharan oil and gas interests acquired before 1 July 1962 would be maintained intact. 11/ In February 1963, Ben Bella stated that although Algeria's share of the oil income was insufficient there were no current plans for expropriation of oil and gas properties. 12/ This statement suggests that the regime will seek a more favorable split of the oil revenues -- presently equivalent to about 50 percent of the profits, 13/ but, barring a major political shift, the regime probably will move cautiously.

To achieve an expanded role in the Saharan oil industry, the government is attempting to establish a national petroleum company to handle new oil and gas ventures. 14/ In addition, the government possibly will seek to increase participation by representatives of the Algerian government on the boards of directors of foreign-controlled firms. 15/ The Algerian government already owns a substantial share of the Saharan petroleum industry as a result of its assumption of 40.5 percent ownership of S. N. Repal* in accordance with the "Evian" agreement. 17/

* S. N. Repal, an oil-and-gas-producing-and-transporting company with interests centering in the Hassi Messaoud Field -- one of the two major oil fields currently operating in the Algerian Sahara. Almost one-half of the shares are still owned by the French government. 16/

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